



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 2, 2003

H.R. 2420 **Mutual Funds Integrity and Fee Transparency Act of 2003**

As ordered reported by the House Committee on Financial Services on July 23, 2003

H.R. 2420 would establish new operating policies and federal reporting requirements for the mutual fund industry. The bill would require the Securities and Exchange Commission (SEC) to conduct studies and issue regulations regarding various aspects of a mutual fund's operations, including information about costs, fees, research services, audit committees, trading restrictions, compensation, and compliance with ethics requirements.

Based on information from the SEC, CBO estimates that implementing this bill would cost about \$1 million in 2004 and a total of about \$2 million over the 2004-2008 period, assuming appropriation of the necessary amounts. Enacting H.R. 2420 would not affect direct spending or revenues.

H.R. 2420 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

H.R. 2420 would impose private-sector mandates, as defined in UMRA, on mutual fund companies. Based on information provided by industry and government sources, CBO expects that the direct costs of complying with those mandates would fall below the annual threshold established by UMRA for private-sector mandates (\$117 million in 2003, adjusted annually for inflation).

The bill would require the SEC to revise and implement regulations requiring mutual fund companies to disclose certain information to investors. The regulations would require:

- Disclosure of operating expenses for each \$1,000 of investment in the company that are borne by shareholders;
- Notification of investors in their brokerage account statements that fees have been deducted;

- Disclosure of portfolio turnover rates, structure of the fund manager's compensation, and where shareholders can find additional information;
- New reporting and record keeping of so-called soft dollar transactions;
- Directors to be informed of any significant deficiencies in the operation of a mutual fund discovered in a SEC inspection;
- Each fund to have a code of ethics and chief compliance officer;
- Disclosure of any holdings managers have in the funds they manage; and
- Disclosure to investors whether brokers received extra financial incentives to sell a particular fund or class of shares.

The bill also would require such companies to make summaries of reports on fund distribution arrangements available to the public, revise audit committee responsibilities, and impose fiduciary duties on board of directors to review revenue-sharing arrangements.

The CBO contacts for this estimate are Melissa E. Zimmerman (for federal costs), and Paige Piper/Bach (for the impact on the private sector),. This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.